

Israel: Background and U.S. Relations in Brief

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September 16, 2016

Congressional Research Service

7-5700

www.crs.gov

R44245

Contents

Introduction	1
Overview of U.S.-Israel Relations.....	2
Addressing Regional Threats.....	3
After the Iran Nuclear Deal	4
U.S.-Israel Security Cooperation.....	5
General Issues	5
New Aid MOU	7
Pending Security Cooperation Legislation.....	8
Current Israeli Government and Major Domestic Issues	9
Israeli-Palestinian Developments	12

Figures

Figure 1. Israel: Map and Basic Facts	1
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Contacts

Author Contact Information	14
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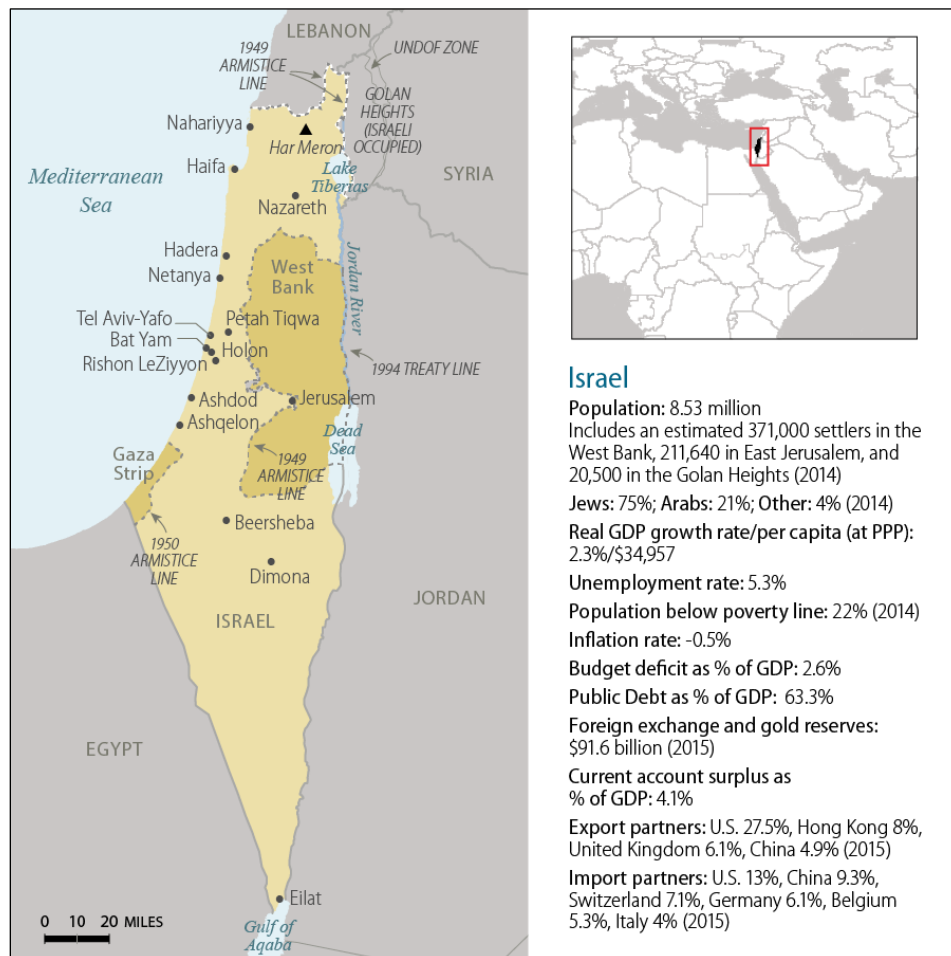
Introduction

Israel's security has significant relevance for U.S. interests in the Middle East, and Congress plays an active role in shaping and overseeing U.S. relations with Israel. This report focuses on the following:

- Recent dynamics in U.S.-Israel relations and security cooperation.
- Addressing regional threats Israel perceives, including via a new memorandum of understanding on U.S. military aid to Israel.
- Current domestic political issues.
- Some Israeli-Palestinian developments.

For additional information and analysis, see CRS Report RL33476, *Israel: Background and U.S. Relations*, by Jim Zanotti; CRS Report RL33222, *U.S. Foreign Aid to Israel*, by Jeremy M. Sharp; CRS Report R44281, *Israel and the Boycott, Divestment, and Sanctions (BDS) Movement*, coordinated by Jim Zanotti; and, for recent developments in Israel-Turkey relations, CRS Report R41368, *Turkey: Background and U.S. Relations*, by Jim Zanotti and Clayton Thomas.

Figure 1. Israel: Map and Basic Facts



Sources: Graphic created by CRS. Map boundaries and information generated by Hannah Fischer using Department of State Boundaries (2011); Esri (2013); the National Geospatial-Intelligence Agency GeoNames

Database (2015); DeLorme (2014). Fact information from CIA, *The World Factbook*; Economist Intelligence Unit; IMF World Outlook Database; Israel Central Bureau of Statistics. All numbers are estimates and as of 2016 unless specified.

Notes: UNDOF: United Nations Disengagement Observer Force. The West Bank is Israeli-administered with current status subject to the 1995 Israeli-Palestinian Interim Agreement; permanent status to be determined through further negotiation. The status of the Gaza Strip is a final status issue to be resolved through negotiations. Israel proclaimed Jerusalem as its capital in 1950, but the United States, like nearly all other countries, retains its embassy in Tel Aviv-Yafo. Boundary representation is not necessarily authoritative.

Overview of U.S.-Israel Relations

For decades, strong bilateral relations have fueled and reinforced significant U.S.-Israel cooperation in many areas, including regional security. Nonetheless, at various points throughout the relationship, aligning U.S. and Israeli policies has presented challenges on some important issues. Notable differences regarding regional issues—notably Iran and the Palestinians—have arisen or intensified since 2009, during the tenures of President Obama and Israeli Prime Minister Binyamin Netanyahu.¹ Israeli leaders have expressed some concerns about the U.S. posture in the region and the potential implications for Israel, while U.S. officials have periodically shown unease regarding the compatibility of some Israeli statements and actions with overall U.S. regional and international interests. However, both governments say that bilateral cooperation has continued and even increased by many measures in a number of fields such as defense, trade, and energy.

Israeli leaders and significant segments of Israeli civil society regularly emphasize their shared values and ongoing commitments to political, economic, and cultural connections with the United States and the broader Western world. However, the future trajectory of Israel's ties with the United States and other international actors may be influenced by a number of factors including geopolitics, generational change, and demographic trends.²

The longtime U.S. commitment to Israel's security and "qualitative military edge" in the region is intended to enable Israel to defend itself against threats it perceives, which in recent years have largely come from Iran and groups Iran supports. The political complement to this cooperation has been a long-standing U.S. effort to encourage Israel and other regional actors to improve relations with one another. U.S. policymakers have sponsored or mediated numerous Arab-Israeli peace initiatives since the 1970s, including Israel's peace treaties with Egypt and Jordan and interim agreements with the Palestine Liberation Organization (PLO). However, largely owing to lingering Israeli-Palestinian disputes and widespread Middle Eastern turmoil, formal political normalization for Israel within the region has been elusive. Such elusiveness may factor into what appears to have been a relatively less urgent U.S. approach to the issue in recent years.

Despite a lack of formal normalization, in recent years Israel has made common cause to some extent with various Arab states. Mutual concerns regarding Iran and its regional actions have presented opportunities for Israel to work discreetly with some Arab states in attempts to counter Iranian influence. Additionally, Israeli and Arab leaders have expressed similar concerns about

¹ See, e.g., Jeffrey Goldberg, "The Obama Doctrine," *The Atlantic*, April 2016; Jason M. Breslow, "Dennis Ross: Obama, Netanyahu Have a 'Backdrop of Distrust,'" PBS Frontline, January 6, 2016; Sarah Moughty, "Michael Oren: Inside Obama-Netanyahu's Relationship," PBS Frontline, January 6, 2016.

² See, e.g., Dennis Ross, *Doomed to Succeed: The U.S.-Israel Relationship from Truman to Obama*, New York: Farrar, Straus and Giroux, 2015; Dana H. Allin and Steven N. Simon, *Our Separate Ways: The Struggle for the Future of the U.S.-Israel Alliance*, New York: PublicAffairs, 2016; Pew Research Center, *Israel's Religiously Divided Society*, March 8, 2016.

the nature and effectiveness of U.S. engagement in the region on behalf of traditional U.S. partners.³

Addressing Regional Threats

Currently, Israeli leaders and numerous other observers publicly identify Iran and two of its non-state allies—Hezbollah in Lebanon⁴ and Hamas in the Gaza Strip—as particularly significant security threats to Israel. Other potential threats include Palestinian attacks emanating from the West Bank and Jerusalem, threats from terrorist groups operating near Israel’s borders with Syria and Egypt,⁵ potential instability of Jordan’s monarchy, and the possibility that some Arab countries might consider using their advanced weaponry against Israel in the event of significant political change.⁶

Perceptions that the United States has become less interested in addressing problems in the region exacerbate Israel’s anxiety over the extent to which it can rely on its geographically distant superpower partner to actively thwart potential threats Israel faces, and to do so in the manner Israel’s government prefers. This concern is attributable in part to the argument some Israelis and others have made that the level and nature of influence the United States has in the Middle East has been reduced, due to a number of political and economic factors.⁷ Nevertheless, substantial U.S. military assets remain deployed in the region, and U.S. officials regularly reiterate commitments to Israel (and other regional allies) and reinforce these statements through tangible means such as aid, arms sales, and missile defense cooperation.⁸ Debate continues among Israelis over the urgency of a political resolution to Israel’s disputes with the Palestinians, as well as the potential regional and international consequences—including possibly increased political and economic “isolation” (or, as some Israelis characterize it, “delegitimization”)—if no resolution occurs.

Israel maintains conventional military superiority relative to its neighbors and the Palestinians, and in some respects regional turmoil since 2011 may have bolstered its security.⁹ Yet, it is unclear how shifts in regional order and evolving asymmetric threats may affect Israel’s capabilities to project military strength, deter attack, and defend its population and borders. Israeli

³ Leslie Susser, “Living in a post-American Middle East,” *Jerusalem Report*, July 11, 2016.

⁴ See, e.g., Neri Zilber, “A Nice, Relaxing Weekend in the Sights of Hezbollah,” *Tablet*, July 12, 2016; Avi Isaacharoff, “10 years after the Second Lebanon War, Israel isn’t in Hezbollah’s sights,” *Times of Israel*, July 14, 2016; William Booth, “Ten years after last Lebanon war, Israel warns next one will be far worse,” *Washington Post*, July 23, 2016.

⁵ In April 2016, Secretary of Defense Ash Carter notified Israel and Egypt that the United States was reviewing its participation in the Multinational Force and Observers mission in the Sinai Peninsula. Currently, there are about 700 U.S. personnel serving in the MFO out of an approximate total of 1,600. Richard Sisk, “US Reviewing Troop Presence in Sinai amid Increasing ISIS Threats,” *military.com*, April 12, 2016.

⁶ For information on various potential threats to Israel’s security, see the transcript of a House Foreign Affairs Middle East and North Africa Subcommittee hearing dated April 19, 2016, available at <http://docs.house.gov/meetings/FA/FA18/20160419/104817/HHRG-114-FA18-Transcript-20160419.pdf>; and Robert M. Danin, “Israel Among the Nations,” *Foreign Affairs*, July/August 2016.

⁷ See, e.g., Susser, “Living in a post-American Middle East,” *op. cit.*; Martin Kramer, “Israel and the Post-American Middle East,” *Foreign Affairs*, July/August 2016; Dennis Ross, “Why Middle Eastern Leaders Are Talking to Putin, Not Obama,” *Politico*, May 8, 2016.

⁸ See, e.g., William Booth and Carol Morello, “Biden arrives in Israel to talk billions in military aid — and try to patch things up,” *washingtonpost.com*, March 8, 2016; Greg Jaffe and Juliet Eilperin, “Obama’s gulf gambit: More military aid to allies could ease regional rifts with Iran,” *washingtonpost.com*, April 21, 2016.

⁹ Danin, *op. cit.*; Kramer, *op. cit.*

officials closely monitor U.S. actions and consult with U.S. counterparts in apparent efforts to gauge and influence the nature and scope of future U.S. engagement on and commitment to key regional issues.¹⁰

Some unconventional threats to Israel are seen to have been reduced because of factors such as heightened security measures vis-à-vis Palestinians; missile defense systems; and reported cyber capabilities. From a physical security standpoint, Israel has proposed and partially constructed a national border fence network of steel barricades (accompanied by watch towers, patrol roads, intelligence centers, and military brigades), which is presumably designed to minimize militant infiltration, illegal immigration, and smuggling from Egypt, Syria, Lebanon, and parts of Jordan.¹¹

After the Iran Nuclear Deal

Israeli politicians and security officials reportedly have a range of opinions regarding the largely U.S.-negotiated July 2015 international agreement on Iran's nuclear program. Most Israeli leaders and observers express concern that the nuclear deal and its implementation is facilitating greater Iranian influence in the Middle East and emboldening Iran and its allies to test Israel's political and military capacities for deterrence. Some leaders, such as Prime Minister Binyamin Netanyahu, have asserted that the deal also has legitimized Iran's aspirations to be a "nuclear threshold" state.¹²

Yet, some within Israel's security establishment have identified positive aspects in the deal's time-specific limits or rollbacks on Iran's ability to produce fissile material,¹³ perhaps believing that it has at least temporarily spared Israel from a decision regarding possible military action to prevent or delay Iran's acquisition of nuclear weapons.¹⁴ Lieutenant General Gadi Eizenkot, the Israel Defense Forces chief of staff, said in January 2016, "The deal has actually removed the most serious danger to Israel's existence for the foreseeable future and greatly reduced the threat over the longer term."¹⁵

A number of post-deal developments may affect Israel's "qualitative military edge" (QME) over regional threats, including

- The prospect of greater Iranian capacity to affect the regional balance of power in the wake of the deal.¹⁶
- An increase in U.S. arms sales to Arab Gulf states.¹⁷

¹⁰ See, e.g., Carmit Valensi and Udi Dekel, "The Current Challenges in the Middle East Demand a Joint United States-Israel Strategy," *Strategic Assessment*, April 2016.

¹¹ William Booth, "With Golan fence, Israel closer to surrounding itself with barriers," *Washington Post*, June 6, 2013; Sharona Schwartz, "Does a Border Fence Work? Check Out the Dramatic Change After Israel Put One Up," *The Blaze*, November 11, 2013. A proposed fence at Israel's border with Jordan is in the planning and budgeting stages, but given other military and domestic priorities, may take years to complete. Attila Somfalvi, "Can Israel afford Netanyahu's plan for massive border fence with Jordan?," *Ynetnews*, June 30, 2014; Yossi Melman, "A shared threat," *Jerusalem Report*, April 6, 2015.

¹² Michael Herzog, "Israel Confronts the Iran Nuclear Deal," Washington Institute for Near East Policy, PolicyWatch 2455, July 24, 2015.

¹³ Danin, op. cit.

¹⁴ Valensi and Dekel, op. cit.; David E. Sanger, "A Year Later, a Mixed Record for the Iran Accord," *New York Times*, July 14, 2016.

¹⁵ Sanger, op. cit.

¹⁶ Valensi and Dekel, op. cit.

- Russia's decision to finally deliver on a long-delayed agreement to provide Iran with an upgraded air defense system known as the S-300.¹⁸

Considerations stemming from the Iran nuclear deal appear to be driving Israeli leaders to seek tangible measures of reassurance from their U.S. counterparts that the United States remains vigorously committed to Israel's security within the Middle East.¹⁹ This atmosphere influences Israeli statements calculated to encourage U.S. and international officials to strictly enforce the terms of the deal and punish any Iranian breaches.

U.S.-Israel Security Cooperation

General Issues

Significant U.S.-Israel security cooperation exists in the realms of military aid, arms sales, joint exercises, and information sharing. It has also included periodic U.S.-Israel governmental and industrial cooperation in developing military technology.

U.S. military aid has helped transform Israel's armed forces into one of the most technologically sophisticated militaries in the world. This aid for Israel has been designed to maintain Israel's "qualitative military edge" (QME) over neighboring militaries, because Israel must rely on better equipment and training to compensate for a manpower deficit in any potential regional conflict.²⁰ U.S. military aid, a portion of which may be spent on procurement from Israeli defense companies, also has helped Israel build and sustain a domestic defense industry, and Israel in turn ranks as one of the top 10 exporters of arms worldwide.²¹

Foreign Military Financing (FMF) and Arms Sales. U.S. FMF to Israel represents approximately one-half of total U.S. FMF and 15%-20% of Israel's defense budget. The remaining two years of a 10-year bilateral memorandum of understanding (MOU) commit the United States to \$3.1 billion annually from FY2017 to FY2018, subject to congressional appropriations.²² Israel uses approximately 74% of its FMF to purchase arms from the United States, in addition to receiving U.S. Excess Defense Articles (EDA).

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¹⁷ Joe Gould, "US Lawmakers Urge Action on Jet Sales to Qatar, Kuwait and Bahrain," *Defense News*, July 12, 2016.

¹⁸ Andrew Roth, "Iran announces delivery of Russian S-300 missile defense system," *washingtonpost.com*, May 10, 2016.

¹⁹ Valensi and Dekel, *op. cit.*

²⁰ In 2008, Congress enacted legislation requiring that any proposed U.S. arms sale to "any country in the Middle East other than Israel" must include a notification to Congress with a "determination that the sale or export of such would not adversely affect Israel's QME over military threats to Israel." §36(h) of the Arms Export Control Act, which contains the QME requirement, was added by §201(d) of the Naval Vessel Transfer Act of 2008 (P.L. 110-429).

²¹ See, e.g., Yossi Melman, "High Stakes Poker," *Jerusalem Report*, May 2, 2016.

²² The version of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2017 (S. 3117), reported by the Senate Appropriations Committee in June 2016 would increase FMF to Israel for 2017 to \$3.4 billion along with an increase in funding to Jordan. Senator Lindsey Graham, who chairs the State, Foreign Operations, and Related Programs Subcommittee, has openly advocated increasing aid to key partners amid regional turmoil. Rachel Oswald, "Graham Eyes Emergency Funding Bill for Middle East Aid," *CQ News*, April 20, 2016. On July 25, 2016, the Israeli Prime Minister's office released a statement that read in part, "Israel places great value on the predictability and certainty of the military assistance it receives from the United States and on honoring bilateral agreements. Therefore, it is not in Israel's interest for there to be any changes to the fixed annual MOU levels without the agreement of both the U.S. Administration and the Israeli government. For FY2017, Israel remains committed to (continued...)"

F-35s. In February 2015, Israel announced that it had reached agreement with the U.S.-based company Lockheed Martin to purchase 14 F-35 (Lightning II) next-generation fighter aircraft, which would add to the 19 it agreed to purchase in 2010. The 2015 agreement reportedly includes an option to purchase an additional 17 (which would bring the total to 50).²³ Israel has received U.S. approval to purchase up to 75 F-35s—potentially leading to as much as \$15.2 billion in purchases if all options are exercised. As part of the F-35 deal, the United States agreed to make reciprocal purchases of equipment from Israeli defense companies estimated at \$4 billion for these companies' participation in the F-35's manufacture.²⁴

In the spring of 2015, Vice President Joe Biden announced that Israel would receive its first shipment of F-35s in 2016. If the planes are delivered on schedule, Israel would be the first country outside the United States to receive the F-35. A May 2016 Israeli media report anticipated the arrival of the first two F-35s in December 2016, followed by another six through 2017. Israel will install Israeli-made C4 (command, control, communications, computers) systems in the F-35s it receives, and will call these customized F-35s "*Adirs*."²⁵ Israel's air force expects to have 50 F-35s in its squadrons by 2021.²⁶

Missile Defense. Congress routinely provides hundreds of millions of dollars in additional annual assistance for Israel's Iron Dome anti-rocket system²⁷ and joint U.S.-Israel missile defense programs such as Arrow and David's Sling. According to an Israeli source, the David's Sling system has already been delivered to the Israel air force, and it is expected to be declared operational in 2016.²⁸ David's Sling is designed to counter long-range rockets and slower-flying cruise missiles fired at ranges from 100 km to 200 km, such as those possessed by Hezbollah in Lebanon.²⁹ In July 2016, the United States and Israel announced that they had successfully conducted a special trial—the first of its kind in eight years—to test the connectivity of U.S.- and Israeli-controlled missile defense systems that are based in and around Israel.³⁰

Because Iron Dome was developed by Israel alone, Israel initially retained proprietary technology rights to it. As the United States began financially supporting Israel's further development of Iron Dome in FY2011, U.S. interest in ultimately becoming a partner in its co-production grew. Congress then called for Iron Dome technology sharing and co-production with the United States.³¹ In March 2014, the United States and Israeli governments signed a production agreement

(...continued)

the FMF level specified in the current MOU, which is \$3.1 billion."

²³ "Israel announces purchase of 14 more F-35 fighter jets," *Associated Press*, February 22, 2015.

²⁴ "Israel Set to Build Wings for Some 800 F-35s," *Reuters*, August 30, 2010.

²⁵ Aharon Lapidot, "After F-35 makes aliyah, it will get new Israeli identity," *Israel Hayom*, May 2, 2016. "Adir" is a Hebrew expression for "mighty" or "powerful."

²⁶ Amir Oren, "First Israeli F-35 Fighter Aircraft Rolls Off the Production Line in Texas," *haaretz.com*, June 22, 2016.

²⁷ Reports based on Israeli military sources indicate that Iron Dome has had a high rate of success in intercepting short-range rockets fired from Gaza. It is unknown if the United States or another third party has independently verified Israeli claims, and some analysts have debated the claims' validity.

²⁸ Yuval Azulai, "Israel, US conduct joint missile defense trial," *Globes*, July 6, 2016.

²⁹ Dan Williams, "Israel to Deploy New 'David's Sling' Missile Shield in Mid-2016," *Reuters*, December 21, 2015.

³⁰ Azulai, *op. cit.* The trial reportedly included such Israeli missile defense assets as David's Sling, Arrow 2, and Arrow 3; and such U.S. assets as Patriot (of which, some batteries have been acquired by Israel), Terminal High Altitude Air Defense (THAAD), Aegis, and the radar station located in Israel's Negev Desert. The trial was a follow-up to the biennial bilateral "Juniper Cobra" joint military exercise.

³¹ Conference report language accompanying P.L. 112-239, the 2013 National Defense Authorization Act; Section 234 of P.L. 113-66, the 2014 National Defense Authorization Act.

to enable components of the Iron Dome system to be manufactured in the United States, while also providing the U.S. Missile Defense Agency (MDA) with full access to proprietary Iron Dome technology. In May 2016, Israel's military said that it had successfully tested a naval version of Iron Dome (known as "C-Dome") and would begin deploying it to protect offshore gas rigs and other strategic assets. The system combines elements of the land-based Iron Dome system with naval radar.³²

Anti-Tunneling. Since Israel's summer 2014 conflict with Hamas and other militants in Gaza, Israel has sought U.S. assistance to develop, test, and produce systems to detect and destroy border-breaching tunnels Hamas had used during the conflict. The Consolidated Appropriations Act, 2016 (P.L. 114-113), included \$40 million from Overseas Contingency Operations (OCO) funding for U.S.-Israel cooperation in developing anti-tunnel technology,³³ and Israeli leaders are reportedly seeking at least the same amount for FY2017 and FY2018.³⁴

New Aid MOU

On September 14, 2016, the U.S. and Israeli governments signed a new 10-year MOU on annual U.S. military aid,³⁵ which will come into effect in FY2019 after the current 10-year MOU runs its course.³⁶ The Administration has stated that it is the largest single pledge of military assistance in U.S. history.³⁷ One observer claimed that the deal provided vindication for Prime Minister Netanyahu and President Obama to some extent:

One, in Jerusalem, wanted to disprove the notion that he harmed bilateral relations with his country's greatest ally by picking a fight [over the 2015 Iran nuclear deal] with its leader.

And the other, soon to leave the White House, was looking for the ultimate seal of approval for his support to the Jewish State. Both ended the race legitimately claiming victory.³⁸

The new MOU will affect U.S. security-related funding for Israel—subject to annual congressional appropriations—as follows:

- Increases annual Foreign Military Financing (FMF) aid to Israel to \$3.3 billion (from a current level of \$3.1 billion).
- Sets an annual U.S. funding level for U.S.-Israel cooperative missile defense programs at \$500 million. Missile defense funding, which is appropriated from Defense Department accounts rather than State Department foreign aid accounts, was not included in past U.S.-Israel aid MOUs. Such funding has fluctuated above and below the \$500 million mark from year to year.

³² Barbara Opall-Rome, "Israel Claims Intercept Success with Sea-Based Iron Dome," *Defense News*, May 18, 2016.

³³ See the Joint Explanatory Statement for Defense accompanying P.L. 114-113 at page 119-A, available at <http://docs.house.gov/meetings/RU/RU00/20151216/104298/HMTG-114-RU00-20151216-SD004.pdf>.

³⁴ Barbara Opall-Rome, "Israel Eyes US Funding To Detect, Destroy Hamas Tunnels," *Defense News*, April 18, 2016.

³⁵ Josh Rogin, "U.S.-Israel deal held up over dispute with Lindsey Graham," [washingtonpost.com](http://www.washingtonpost.com), September 11, 2016.

³⁶ "Israel, US said to resolve key sticking points on aid deal," *Times of Israel*, August 1, 2016.

³⁷ White House, "FACT SHEET: Memorandum of Understanding Reached with Israel," September 14, 2016.

³⁸ Nathan Guttman, "ANALYSIS: \$38B Israel Aid Deal Is Political Boon for Benjamin Netanyahu — and Barack Obama," *Jewish Daily Forward*, September 15, 2016.

- Phases out (reportedly during the last half of the 10-year period³⁹) the longtime allowance for Israel to use 26.3% of annual FMF for purchases from its own domestic manufacturers. No similar allowance is available to other countries.
- Ends or significantly reduces Israel's past practice of using FMF for fuel purchases.

Reportedly, Israel has agreed in writing to refrain from requesting supplemental funding from Congress for the MOU's entire duration, except for special emergency needs resulting from an armed conflict.⁴⁰ It is unclear how this will affect Congress's role in the appropriations process.

Additionally, Senator Lindsey Graham has said that as part of the deal, the Israeli government signed a letter agreeing to return any funds that Congress might appropriate for the remaining two years (FY2017 and FY2018) covered by the FY2009-FY2018 MOU that was finalized in 2007 during the Bush Administration.⁴¹ Senator Graham is Chairman of the Senate Appropriations Subcommittee on State, Foreign Operations, and Related Programs. This subcommittee's version of the FY2017 appropriations bill (S. 3117) would provide Israel with \$3.4 billion, \$300 million more than the \$3.1 billion called for in the current MOU.⁴²

On July 25, 2016, the Israeli Prime Minister's office released a statement that read in part, "Israel places great value on the predictability and certainty of the military assistance it receives from the United States and on honoring bilateral agreements. Therefore, it is not in Israel's interest for there to be any changes to the fixed annual MOU levels without the agreement of both the U.S. Administration and the Israeli government. For FY2017, Israel remains committed to the FMF level specified in the current MOU, which is \$3.1 billion."

Pending Security Cooperation Legislation

2017 National Defense Authorization Act (NDAA). The House-passed version of the NDAA (H.R. 4909) includes the following provisions:

- *Section 1250.* Would authorize up to \$25 million for U.S.-Israel cooperation in research and development of directed energy (laser) technologies to counter missiles, drones, mortars, and improvised explosive devices if the two countries can reach agreement on sharing costs and intellectual property rights.
- *Section 1259J.* Would authorize assistance to Israel "to improve maritime security and maritime domain awareness" over a five-year period. Activities for which assistance would be specifically authorized include support for the David's Sling missile defense system, Israeli participation in joint maritime exercises with the United States, visits of U.S. vessels at Israeli ports, and research and development.
- *Section 1259N.* Would require the Administration to report within 180 days to congressional committees on (1) defensive capabilities and platforms requested by Israel, (2) the availability of such items for transfer, and (3) steps the President is taking to transfer such items.

³⁹ "Israel, US said to resolve key sticking points on aid deal," *Times of Israel*, August 1, 2016.

⁴⁰ Guttman, op. cit.; Peter Baker and Julie Hirschfeld Davis, "U.S. and Israel Seal Huge Military Aid Deal," *New York Times*, September 14, 2016.

⁴¹ Josh Rogin, "Obama and Israel cut Congress out of the aid game," *washingtonpost.com*, September 14, 2016.

⁴² Rogin, op. cit.

The Senate-passed version of the NDAA (S. 2943) does not include any of the above provisions, but includes a separate provision that would increase the annual amount authorized for U.S.-Israel tunneling cooperation (through calendar year 2018) from \$25 million to \$50 million if such funds are matched in the corresponding calendar year by Israel. Of any U.S. amounts used for this purpose in FY2017, not less than 50% would be for research, development, test, and evaluation activities in the United States.

Both H.R. 4909 and S. 2943 would authorize funding for Israel-based missile defense systems beyond the Administration's budget request, but the aggregate increases in S. 2943 are less than in H.R. 4909. A July 2016 letter from 36 Senators urged the chairmen of the conference reconciling the two bills to use the H.R. 4909 figures.⁴³

2017 Department of Defense Appropriations Act. Following the pattern from previous years, both the House-passed (H.R. 5293) and Senate-introduced (S. 3000) versions of this act would provide funding for Israel-based missile defense systems beyond the Administration's budget request.⁴⁴ On June 14, 2016, in a document opposing a number of items in H.R. 5293, the Administration said that it "opposed the addition of \$455 million above the FY 2017 Budget request for Israeli missile defense procurement and cooperative development programs."⁴⁵ In a June 15, 2016, daily press briefing, the State Department spokesperson explained the Administration's position by saying that \$455 million "is the largest such non-emergency increase ever and, if it's funded, would consume a growing share of a shrinking U.S. Missile Defense Agency's budget." Some observers interpreted the Administration's position as possibly being linked to the then-ongoing MOU negotiations regarding the inclusion of missile defense funding.⁴⁶

Current Israeli Government and Major Domestic Issues

Prime Minister Netanyahu of the Likud party presides over a coalition government that includes six parties generally characterized as right of center. Netanyahu has been prime minister since March 2009, and also served as prime minister from 1996 to 1999. In May 2016, the Yisrael Beiteinu party joined the government, and its leader Avigdor Lieberman⁴⁷ became Israel's defense minister. Lieberman replaced Moshe Ya'alon (a Likud member) as defense minister. Rather than accepting another post such as foreign minister, Ya'alon resigned from public life partly due to

⁴³ Kristina Wong, "Tim Kaine backs call to boost funding for Israeli missile defense," *The Hill*, July 26, 2016.

⁴⁴ Both the House and the Senate versions would increase funding from Administration requested levels for Iron Dome from \$42 million to \$62 million, for David's Sling from \$37.2 million to \$266.5 million, for Arrow 2 from \$10.8 million to \$67.3 million, and for Arrow 3 from \$55.8 million to \$204.9 million. For some information on the Congress-Administration dynamics of this year's process, see Julian Pecquet, "Obama, Congress hurtle toward showdown over Israel missile defense," *Al-Monitor Congress Pulse*, April 27, 2016.

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https://www.whitehouse.gov/sites/default/files/omb/legislative/sap/114/saphr5293r_20160614.pdf?elqTrackId=6EC9CEC95DE185EB4389F47C7BDB2988&elq=b8956db884d14431acb7ea48bb94f526&elqaid=19132&elqat=1&elqCampaignId=11805.

⁴⁶ See, e.g., Wilner, op. cit.

⁴⁷ For more on Lieberman, see Barak Ravid, "Which Avigdor Lieberman Will Enter Israel's Defense Ministry?," *haaretz.com*, May 20, 2016; and Leslie Susser, "The Netanyahu enigma," *Jerusalem Report*, June 27, 2016.

disillusionment with Netanyahu.⁴⁸ He has since expressed his intent to challenge Netanyahu in the next national elections, which are due no later than 2019.

One commentator has said that Israelis keep returning Netanyahu to office “precisely because he is risk averse: no needless wars, but no ambitious peace plans either.”⁵² However, Netanyahu’s position could be imperiled if an ongoing attorney general’s corruption probe leads to a formal criminal investigation and possibly an indictment.⁵³ In a recent poll, the centrist opposition party Yesh Atid came out ahead of Likud, though the results did not indicate a change in the overall advantage for right-of-center parties.⁵⁴ Additionally, the varying interests of the current coalition’s members and some intra-party rifts—particularly within Likud⁵⁵—contribute to difficulties in building consensus on the following issues:

- How to address an interrelated set of concerns relating to national security, freedom of expression, competing ideologies, and international influence; and
- How to promote macroeconomic strength while addressing popular concerns regarding economic inequality and cost of living.

U.S. Grants and 2015 Israeli Elections

In July 2016, the Senate Homeland Security and Governmental Affairs Permanent Subcommittee on Investigations published a joint staff report reviewing State Department grants totaling around \$350,000 that were given in 2013 and 2014 to two regional NGOs known as OneVoice Israel and OneVoice Palestine to promote U.S.-led Israeli-Palestinian peace negotiations.⁴⁹ The subcommittee staff report concluded that the State Department administered the grants in accordance with U.S. law, and the NGOs complied with the terms of the grants by not directly using funds in political campaigns. However, the report also concluded that OneVoice Israel “deployed the campaign infrastructure and resources created using grant funds to support an anti-Netanyahu political campaign called V15” in the run-up to March 2015 Israeli elections.⁵⁰ The issue has been debated since it was first discovered during the 2015 campaign, and upon release of the report, some right-of-center Israeli politicians criticized what they characterized as State Department involvement in Israeli politics.⁵¹

Netanyahu’s government has faced considerable challenges in connection with Israeli-Palestinian issues and their international ripple effects. In the fall of 2015, tensions connected with Jerusalem’s Temple Mount/Haram al Sharif contributed to a wave of mostly “lone wolf” attacks by Palestinians against Jewish Israeli security personnel and civilians that intensified for several months and have fluctuated since. In early July, the prime minister’s office announced that any amounts transferred by the PA to “terrorists and their families” will be deducted from the monthly tax revenues Israel transfers to the PA.⁵⁶ In

⁴⁸ Marissa Newman, “The winners and the losers in the emerging coalition shake-up,” *Times of Israel*, May 20, 2016.

⁴⁹ The subcommittee staff report is available at http://www.hsgac.senate.gov/subcommittees/investigations/hearings/joint-staff-report_review-of-us-state-department-grants-to-onevoice. Both NGOs are controlled by the PeaceWorks Network Foundation, a U.S.-based 501(c)(3) organization.

⁵⁰ Subcommittee staff report, p. 5.

⁵¹ “Right-wing lawmakers pan US ‘intervention’ in Israeli elections,” *Times of Israel*, July 13, 2016.

⁵² Kramer, op. cit.

⁵³ Ben Caspit, “Is Bibi’s massive fundraising network about to collapse?,” *Al-Monitor Israel Pulse*, July 20, 2016. According to one source, “Ehud Olmert, Mr Netanyahu’s predecessor as prime minister, was forced to resign in 2009 over bribery allegations and is now serving a 19-month sentence in prison, while possibly facing further convictions.” “Israel’s prime minister: The law looms larger,” *Economist*, July 16, 2016.

⁵⁴ Mazal Mualem, “Has Netanyahu met his match?” September 11, 2016.

⁵⁵ Mazal Mualem (translated from Hebrew), “How the once-moderate Likud was radicalized,” *Al-Monitor Israel Pulse*, April 8, 2016.

⁵⁶ Israeli Prime Minister’s Office, “PM Netanyahu Orders that Palestinian Authority Payments to Terrorists and their Families be Deducted from Tax Revenue Transfers to the PA,” July 1, 2016. Israel periodically delays or withhold tax (continued...)

August, Defense Minister Lieberman presented what has been called a “carrot and stick” plan, which has generated significant debate from its focus on linking rewards or punishments in specific Palestinian West Bank communities to the extent attackers come from those communities.⁵⁷ As a result of the violence, more than 30 Israelis and 200 Palestinians have been killed.⁵⁸

Some right-of-center politicians—including Netanyahu in some instances—have rebuffed top Israeli defense and military officials in 2016 for statements urging the prosecution of Israeli security personnel who use unjustifiable force, and for expressing opinions about signs of “intolerance” and “brutalization” in Israeli society.⁵⁹ Polarization between defense officials and some government leaders was exacerbated in the aftermath of a March 2016 shooting of a wounded, prostrate Palestinian attacker by an Israeli soldier in the West Bank.⁶⁰ Upon his resignation in May, former defense minister Moshe Ya’alon asserted that manifestations of extremism in Israel and the Likud party are “seeping into the army.”⁶¹ The previous defense minister, Ehud Barak (who is also a former prime minister) has made similar statements about increasing signs of extremism in Israeli society and politics.⁶²

The Israeli public and international observers vigorously debated two Netanyahu-supported bills in the Knesset that passed in July 2016. One new law required non-governmental organizations (NGOs) receiving more than half their funding from foreign governments to officially declare the funding sources, and appears to disproportionately affect left-leaning organizations.⁶³ In a July 12 daily press briefing, the State Department spokesperson raised concerns about the “chilling effect that this new law could have on NGO activities.” The second law amended Israel’s Basic Law to allow a Knesset supermajority to expel a Knesset member if the member incites racism or supports violence against the state.⁶⁴ It appears to be tailored to address concerns among several Jewish lawmakers regarding Arab Knesset members.⁶⁵

(...continued)

revenue transfers to the PA over security or political concerns or disputes. Palestinians and some international observers assert that the 1994 Paris Protocol governing such transfers does not permit Israeli delays or withholding. The PA transfers alluded to by the prime minister’s office presumably refer to Palestinian payments to persons imprisoned by Israel for terrorism and those persons’ families.

In 2014, the Palestinians reportedly shifted the responsibility for making these payments from the PA to the Palestine Liberation Organization (PLO) budget, largely in order to defuse concerns among the PA’s international donors about perceptions that the donors might be indirectly associated with the prisoner-related payments. CRS Report RS22967, *U.S. Foreign Aid to the Palestinians*, by Jim Zanotti.

⁵⁷ Yoav Zitun and Tova Tzimuki, “Lieberman unveils ‘carrot and stick’ plan against terror,” *Ynetnews*, August 17, 2016.

⁵⁸ Hadid, op. cit. Some U.S. citizens have been killed or injured. The State Department issued a December 16, 2015, travel warning for Israel, the West Bank, and Gaza that remains in effect.

⁵⁹ “Israeli military finds its independent voice under attack,” *Christian Science Monitor*, May 9, 2016.

⁶⁰ The shooter, Sgt. Elor Azaria, is being tried for manslaughter in an Israeli military court amid controversy over whether the shooter might have reasonably believed that the wounded Palestinian presented a threat.

⁶¹ “Israel Defense Minister Moshe Yaalon Quits, Says Can’t Trust PM Netanyahu,” Associated Press, May 20, 2016.

⁶² Judah Ari Gross, “Barak flogs Netanyahu, laments ‘budding fascism’ in Israel,” *Times of Israel*, June 16, 2016.

⁶³ “After contentious debate, Knesset passes NGO law,” *Times of Israel*, July 12, 2016.

⁶⁴ Ruth Levush, “Israel: Laws Authorize Expulsion of Lawmakers Engaged in Incitement to Racism or Support of Armed Struggle Against the State,” Law Library of Congress Global Legal Monitor, July 21, 2016.

⁶⁵ “Knesset passes law allowing expulsion of lawmakers,” *Jewish Telegraphic Agency*, July 20, 2016.

Israeli-Palestinian Developments

Official U.S. policy continues to favor a “two-state solution” to address core Israeli security demands as well as Palestinian aspirations for national self-determination. Continued failure by Israelis and Palestinians to make progress toward a negotiated solution could have a number of regional and global implications. Israeli actions regarding security arrangements and settlement construction in the West Bank and East Jerusalem could have ramifications for the resolution of final-status issues. Palestinian leaders support initiatives to advance their statehood claims and appear to be encouraging international legal and economic pressure on Israel in an effort to improve the Palestinian position vis-à-vis Israel. U.S. and international efforts to preserve the viability of a negotiated two-state solution attract skepticism because of regional turmoil and domestic reluctance among key Israeli and Palestinian leaders and constituencies to contemplate political or territorial concessions.

Meanwhile, Israelis debate whether their leaders should participate in international initiatives, advance their own diplomatic proposals, act unilaterally, or manage the “status quo.” Netanyahu has publicly welcomed resuming negotiations without preconditions, but he and other Israeli officials have indicated or hinted that regional difficulties involving Iran and Arab states steeped in turmoil since 2011 forestall or seriously impede prospects for mutual Israeli-Palestinian concessions through negotiation. Additionally, several government ministers openly oppose a two-state solution.⁶⁶ Toward the left of the political spectrum, some Israeli politicians welcome the prospect of greater U.S. involvement in principle, claiming that regional challenges, Israel’s international ties, and demographic changes make resolving the Palestinian issue a priority. Even so, proposals from center-left leaders such as Yitzhak Herzog of the main opposition Labor party seem to acknowledge that a two-state solution is unlikely in the near term.⁶⁷

In response to apparent Palestinian efforts to gather support for a U.N. Security Council draft resolution that would characterize Israeli West Bank settlements as illegal, 394 Representatives signed a letter to President Obama in April 2016. The letter said that Obama’s commitment to “longstanding U.S. policy to veto one-sided UN Security Council resolutions remains fundamentally critical.”⁶⁸ In July, the United States and other members of the Middle East Quartet (European Union, Russia, U.N. Secretary-General’s office) published a report saying, among other things, that the “continuing policy of settlement construction and expansion, designation of land for exclusive Israeli use, and denial of Palestinian development is steadily eroding the viability of the two-state solution.”⁶⁹ In publishing the report, the Quartet members may have been at least partly seeking to bolster regional and international confidence in their ability to facilitate a future resolution. France hosted a June 2016 conference of foreign ministers

⁶⁶ “Only Four of 20 Israeli Ministers Openly Declare Support of Two-state Solution,” *haaretz.com*, June 27, 2016.

⁶⁷ Jonathan Lis, “Labor Adopts Herzog’s Plan for Separation From Palestinians as Party Platform,” *haaretz.com*, February 8, 2016.

⁶⁸ Text of letter available at http://kaygranger.house.gov/sites/granger.house.gov/files/Letter%20to%20President%20Obama%20supporting%20direct%20negotiations%20%E2%80%93%20signed%20by%20394%20Members%20of%20Congress_1.pdf.

⁶⁹ The report, dated July 1, 2016, is available at <http://www.state.gov/p/nea/rls/rpt/259262.htm>. It also lamented terrorist attacks against civilians and incitement to violence, and said that although the Palestinian Authority leadership has consistently expressed opposition to violence against civilians, “Palestinian leaders have not consistently and clearly condemned specific terrorist attacks. And streets, squares and schools have been named after Palestinians who have committed acts of terrorism.”

(including Secretary of State Kerry) that reportedly established working groups to craft terms of reference for a possible future resumption of negotiations.⁷⁰

Observers speculate whether President Obama might set forth terms of reference in a U.S. or international initiative before the end of Obama's term in January 2017. After the September 2016 signing of the U.S.-Israel aid MOU, Obama asserted that "we will continue to press for a two-state solution to the longstanding Israeli-Palestinian conflict, despite the deeply troubling trends on the ground that undermine this goal."⁷¹ On the same day, National Security Advisor Susan Rice said, "We don't have any plans to do anything particularly dramatic at this point. We continue to want to see a two-state solution remain a live option. It's vitally important."⁷²

Netanyahu and Lieberman, who have opposed the French initiative, have welcomed efforts by Russia⁷³ and Egypt to facilitate an initiative involving Arab states "which share security interests with Israel and have leverage on the Palestinians."⁷⁴ However, some analysts assert that Arab states are distracted by other internal and regional concerns⁷⁵ and are unlikely to use their leverage unless Israel shows a willingness to contemplate concessions envisioned in the 2002 Arab Peace Initiative.⁷⁶ In September 2016, Netanyahu released a video on Facebook claiming that Palestinian demands for a state were tantamount to ethnic cleansing, prompting the following response from a State Department spokesperson:

We obviously strongly disagree with the characterization that those who oppose settlement activity or view it as an obstacle to peace are somehow calling for ethnic cleansing of Jews from the West Bank. We believe that using that type of terminology is inappropriate and unhelpful.⁷⁷

Among various policy prescriptions on Israeli-Palestinian diplomacy, two former U.S. officials have proposed that Israel curb settlement building in some key places in possible exchange for more active U.S. diplomatic support to "stem the drift toward a binational state" and "blunt the de-legitimization movement [against Israel] internationally."⁷⁸ Another commentator has stated

⁷⁰ Susser, "The Netanyahu enigma," op. cit.

⁷¹ White House, Statement by the President on the Memorandum of Understanding Reached with Israel, September 14, 2016.

⁷² Julie Hirschfeld Davis, "Obama Prods Netanyahu After Signing of U.S.-Israel Deal," *New York Times*, September 15, 2016.

⁷³ Zvi Magen and Udi Dekel, "Russia's Initiative on the Israeli-Palestinian Process: Another Move to Regain Influence in the Middle East," Institute for National Security Studies Insight No. 853, September 13, 2016.

⁷⁴ Susser, "The Netanyahu enigma," op. cit.

⁷⁵ See, e.g., Uri Savir (translated from Hebrew), "Have Arab leaders forgotten about Palestine?," *Al-Monitor Israel Pulse*, July 10, 2016.

⁷⁶ See, e.g., Bruce Maddy-Weitzman, "How far can they go?," *Jerusalem Report*, June 27, 2016. The Arab Peace Initiative offers a comprehensive Arab peace with Israel if Israel were to withdraw fully from the territories it occupied in 1967, agree to the establishment of a Palestinian state with a capital in East Jerusalem, and provide for the "[a]chievement of a just solution to the Palestinian Refugee problem in accordance with UN General Assembly Resolution 194." The initiative was proposed by Saudi Arabia, adopted by the 22-member Arab League (which includes the PLO), and later accepted by the 56-member Organization of the Islamic Conference (now the Organization of Islamic Cooperation) at its 2005 Mecca summit. The text of the initiative is available at <http://www.bitterlemons.org/docs/summit.html>.

⁷⁷ "Mahmoud Abbas: It's Israel that's 'carrying out ethnic cleansing,'" *Ynetnews* and Reuters, September 11, 2016.

⁷⁸ Dennis Ross and David Makovsky, "The neglected Israeli-Palestinian peace process must be revived," *Washington Post*, February 25, 2016. For more information on measures various parties have taken against Israel and/or Israeli settlements, see CRS Report R44281, *Israel and the Boycott, Divestment, and Sanctions (BDS) Movement*, coordinated by Jim Zanotti.

that the region may be trending toward “a steady low-grade civil war between Palestinians and Israelis and a growing Israeli isolation in Europe and on college campuses that the next U.S. president will have to navigate.”⁷⁹

Palestinian Authority (PA) President Mahmoud Abbas stated in late September 2015 in remarks before the U.N. General Assembly that the Palestinians were no longer bound by the 1990s “Oslo” agreements creating the PA,⁸⁰ contributing to some speculation about whether the PA might disband itself or collapse.⁸¹ In recent months, debate has continued regarding the future of PA security cooperation with Israel, which appears to continue despite some tensions.⁸² Questions persist regarding the aging Abbas’s remaining tenure and what will happen when he leaves office.⁸³

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⁷⁹ Thomas L. Friedman, “The Many Mideast Solutions,” *New York Times*, February 10, 2016.

⁸⁰ The main document establishing PA limited self-rule over the Gaza Strip and parts of the West Bank is the Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip (known generally as the “1995 Interim Agreement” or “Oslo II”), which was signed by Israel and the PLO on September 28, 1995. The text is available at <http://www.mfa.gov.il/MFA/ForeignPolicy/Peace/Guide/Pages/THE%20ISRAELI-PALESTINIAN%20INTERIM%20AGREEMENT.aspx>.

⁸¹ See, e.g., Barak Ravid, “Israeli Minister: Palestinian Authority Will Collapse, the Only Question Is When,” *Ha’aretz*, February 29, 2016.

⁸² Adnan Abu Amer (translated from Arabic), “Is the PA coordinating arrests with Israel?,” *Al-Monitor Palestine Pulse*, April 28, 2016; Joshua Davidovich, “Days of death and destruction,” *Times of Israel*, July 3, 2016.

⁸³ Ben Lynfield, “Creating chaos,” *Jerusalem Report*, September 5, 2016.